



BELLWETHER PARTNERS LIMITED Australian Share Fund

December 2006

UNIT PRICE as at 31 December 2006

NAV Price	\$1.4773
Buy Price	\$1.4825
Sell Price	\$1.4722

Investment Manager	Bellwether Partners Limited ASFL: 238460
Contact	Bruce Bell Ph. (03) 9661 0818 Level 9, 63 Exhibition Street Melbourne Victoria 3000 Phone: (03) 9661 0888 Email: mail@bellwether.com.au Web: www.bellwether.com.au
Fund Inception	11 August 2004
Benchmark	S&P/ASX 300 Accumulation Index
No. Stocks Held	28

PERFORMANCE STATISTICS

Periods ending 31 December 2006	1 month	3 months	1 year	Since Inception (p.a)
Fund Return (Gross)	4.65%	12.82%	28.83%	34.10%
Benchmark*	3.67%	11.13%	24.51%	28.12%
Out/Under Performance	0.98%	1.69%	4.32%	5.98%

* S&P/ASX 300 Accumulation Index

OVERVIEW

The Australian Equities market closed 2006 strongly with the S&P/ASX 300 rising 3.67% in December and setting further record highs intra month. The benchmark returned 24.51% for the 2006 calendar year, the third consecutive year of returns exceeding 20%.

M&A activities continued to be a primary driver in what is historically a strong month for equities, led by the proposed \$11.1 billion private equity consortium bid for Qantas. A steady interest rate environment in December and firm employment data provided a backdrop for a solid Christmas retail environment, supporting the Consumer Discretionary (+2.4%) and Staple (6.0%) sectors. Financials (+4.3%), Utilities (+7.7%) and Telecoms (+10.8%) also benefited from this macro environment.

The Resources sector saw a continuation of November's subdued theme, with the declining copper price limiting the performance of the highly weighted diversified resource stocks such as BHP and RIO, while commodity specific producers (uranium, zinc, nickel) performed strongly, supported by positive outlooks for their respective commodities. The copper price continues to be a major driver for BHP and RIO.

After raising interest rates in November to 6.25%, the Reserve Bank left rates unchanged at its December meeting. There is a general market view that rates will remain steady at the RBA's next meeting on 6th February, allowing some time to digest new economic data before determining the future direction for domestic interest rates. The US economy continues to undergo a soft landing with housing construction remaining subdued, while non housing construction remains strong. Employment levels remain high but may be vulnerable to a delayed impact from housing activity declines.

Key market drivers in 2006 were the dominance of corporate activity in the latter half of the year combined with strong liquidity from mandated superannuation flows. Expanding PE multiples (Industrials) combined with robust earnings growth resulted in strong performance across all sectors. Property Trusts (+34.1%), Consumer Staples (+29.4%) and Utilities (+29.30%) outperformed while Telecoms (11.4%), Energy (13.1%) and Materials (19.6%) had more modest gains.

Following on from strong performances in October and November, the **Bellwether Partners Australian Share Fund** ended the quarter and year with a solid performance in December, rising 4.65% against the Benchmark return of 3.67%, an outperformance of 0.98%. This brings the December quarter return to 12.82% and the 2006 return to 28.83%, both periods generating results in excess of Benchmark returns.

OUTLOOK

After a strong 2006, the Australian equities market remains on a good footing for its fourth successive year of double digit returns. Markets will nevertheless be influenced by economic policy setting both domestically and abroad during the course of the year along with commodity price trends and the duration of drought conditions. With strong employment trends prevailing, large dividend and capital returns to investors and an active and ongoing M&A environment, investment cashflows available for equity markets are expected to remain high.

Combined with a positive outlook for corporate earnings growth, fair P/E multiples and strong Balance Sheets, the platform from which equities can continue to perform is in good shape.

The Australian market may yet feel an impact if the US economy fails to undergo the now expected soft landing or China falters in its robust economic expansion phase. While neither of these outcomes is expected at this stage, close monitoring is required as a component of overall Portfolio Risk management.

Bellwether expects business conditions for mining companies to remain strong, contingent on the continuing robust trend in Chinese economic growth. While the outlook for zinc, nickel and uranium continues to look solid, opportunities in the copper market may arise at some stage in 2007 when/if China decides to undergo a re-stocking of depleted copper inventory. The outlook for oil remains dependant upon northern hemisphere weather trends, which are currently warmer than normal and therefore generating a lower than normal demand for heating requirements, combined with general global economic activity and OPEC supply discipline.

Into 2007 we see inflation easing, allowing the central banks to reduce interest rates in response to slowing growth. The strength of the \$A is likely to stall around the US \$ 0.80 level and the current "fair value" level of the market, particularly relative to alternative asset classes, should provide a solid footing for a positive return from the market in 2007.

POSITIVE CONTRIBUTORS

Paladin Resources Limited (PDN)

Portfolio Contribution	+0.60%
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Paladin Resources was among the top performers in the 2006 calendar year, gaining 350.6%. The uranium miner gained 50.74% in December on continuing anticipation of the commissioning of its Langer Heinrich mine which occurred late in the month. Paladin continues to rank highly in our Quant model and has been a significant source of alpha capture in 2006.

QBE Insurance Group Limited (QBE)

Portfolio Contribution	+0.55%
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Insurer QBE benefited from the market's re-rating of the stock; its share price surging mid month after the acquisition of the Praetorian Financial Group in the US. Revised guidance for 2006 NPAT from an expected 15% up to 30% contributed to a gain of 11.4% by month end. A consolidation at current price levels will place QBE in a strong position for further upward movement in the coming months.

James Hardie Industries NV (JHX)

Portfolio Contribution	+0.49%
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James Hardie gained 14.7% in December following reports that new home sales in the US rose 3.4% in November from the previous month, exceeding economic expectations. Management noted during the month that the profitability of the business is likely to remain stable should US housing activity decline due to the scalability of US operations.

NEGATIVE CONTRIBUTORS

BHP Billiton Limited (BHP)

Portfolio Contribution	-0.28%
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BHP Billiton lost 3.6% over the month with early gains eroded by perceived economic weakness in the US and falling copper and oil prices. A price increase of 9.5% against China's leading iron ore buyer Baosteel failed to boost prices as it is likely the gain will be offset by a stronger than expected Australian dollar. Recent price movement suggests that BHP is a strong turnaround candidate and we continue to hold a significant position, up weighting our holding during the month.

GPT Group (GPT)

Portfolio Contribution	-0.19%
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GPT Group had a volatile December, locking in price gains of 8.53% at month end as the property investor announced their purchase of a portfolio of senior's accommodation in the US. The Fund switched out of GPT intra month in favour of the more attractive Stockland Group (SGP) in response to signals from our quant model, generating a net gain between the two positions of 0.20% at month end.

St George Bank Limited (SGB)

Portfolio Contribution	-0.13%
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St George bank gained a moderate 1.1% during the month. During their AGM held in December, SGB reinforced FY07 and FY08 growth targets of 10% despite a slowdown in the housing market triggered by rising interest rates in the second half of 2006. The Fund sold its holding intra month.

TOP TEN HOLDINGS

Stock	B/Mark	Fund
BHP Billiton Limited (BHP)	7.87%	7.77%
National Australia Bank Limited (NAB)	5.86%	6.73%
Australia & New Zealand Banking Group (ANZ)	4.62%	6.23%
Commonwealth Bank of Australia (CBA)	5.68%	5.68%
QBE Insurance Group Limited (QBE)	2.07%	5.06%
Woolworths Limited (WOW)	2.55%	5.04%
Publishing & Broadcasting Limited (PBL)	0.80%	4.32%
Westpac Banking Corporation (WBC)	3.99%	4.11%
Toll Holdings Limited (TOL)	0.91%	3.77%
James Hardie Industries NV (JHX)	0.40%	3.65%
Top Ten		52.36%
Other Stocks		45.74%
Cash		1.90%
Total		100.0%

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